Introduction

This is a four-module course that covers a number of topics in empirical finance. It is meant to expose students to the main research areas of the finance faculty at the BGSE. It is a particularly useful course for students that wish to pursue an academic career in finance.

Objectives

Module I: Empirical Methods in Corporate Finance (Andrea Polo): The purpose of this module is to provide an overview of the empirical methods used in research in corporate finance. We will discuss the types of data used in corporate finance research, the econometric issues that arise, and the solutions that have been applied. We will examine a number of applications of each technique in corporate finance.

Module II: Empirical Financial Accounting (Javier Gomez Biscarri): The objectives of this module are threefold: first, the module will introduce the main empirical lines of research on financial accounting, placing emphasis on the theories underlying the analyses and on how the theories were "taken to the data"; second, performing one specific example of such "taking the theories to the data" will help students "get their hands dirty" with data, so they become familiar with the problems that arise when doing empirical analyses; third, the module is intended to provide students with an overview of the specific research and contributions by the professor, thus helping the students get acquainted with the research being done at UPF and identify potential research ideas and collaborations.

Module III: Economics of Asset Management (Javier Gil Bazo): Despite the massive reliance of investors worldwide on professional managers for both short-term and long-term investment decisions, the economics of the market for asset management services is still subject to an intense debate among academic economists, regulators, and market participants. The purpose of this module is to introduce the student to the major points of
contention in this debate. The topic of mutual fund performance is covered in the Session 1. It includes an overview of performance measures, early empirical evidence, and more recent contributions that arise from methodological innovations. Session 2 explores the issue of how investors respond to portfolio performance and the consequences for performance determination. Sessions 3 and 4 deal with a promising area of research for economists: Mutual fund investor behavior and how it shapes the nature of competition in the mutual fund industry. The last session will be devoted to the evidence on conflicts of interest in the asset management industry.

Module IV: Interactions between banking and macroeconomics (Jose Luis Peydro): In this part we will analyze the interactions between banking and macroeconomics, including monetary policy, systemic risk and financial crises. We will pay attention to bank capital and liquidity, credit cycles (booms and crunches), credit and asset price cycles, excessive risk taking, financial globalization and banks, and macroprudential policy.

Required Background Knowledge

Module I: There are no formal prerequisites, but I will assume throughout that you have a basic understanding of econometrics (equivalent to at least one semester at the PhD level) and some understanding of corporate finance theory.

Module II: No specific background knowledge is required beyond that provided by the courses in the first two quarters (especially, econometrics, financial econometrics and asset pricing) and some basic knowledge of the structure of the financial statements of a firm.

Module III: No specific background knowledge is required beyond that provided by the courses in the first two quarters (especially, econometrics, financial econometrics and asset pricing).

Module IV: There are no formal prerequisites, but I will assume throughout that you have a basic understanding of econometrics and economics.
Topics in Finance: Empirical Methods in Finance

Learning Outcomes

Module I: Students will be: a) able to understand the empirical methodologies behind the recent corporate finance literature, b) able to critically assess the robustness of the methods.

Module II: By the end of the module students should be familiar with some of the main areas of empirical financial accounting research and should know how these areas relate to empirical finance in general. Also, students will have been exposed to the standard methodologies and practices of empirical accounting researchers.

Module III: After taking this module, students are expected to have an educated opinion about the main debates within the subfield of asset management: Whether or not (at least some) professional asset managers earn back management fees through their abilities to trade against market inefficiencies; Whether they should be expected to do so when investors compete for the most skilled managers; Whether and why competition among asset managers for investors’ money differs from competition in other markets; And whether and how regulation can help. Both the contents and the teaching will be aimed at providing students with ideas for research in this field.

Module IV: Students will be able to apply the empirical methodologies behind the recent banking and macro literature and be able to critically assess the robustness of the methods.

Methodology

Module I: The first session will introduce the students to the problems of endogeneity— omitted variables, simultaneity- in addressing empirically corporate finance questions. The next four sessions will follow a similar structure: each session will cover briefly an econometric technique and then will show corporate finance applications so that the students can appreciate the challenges and the limits of each method. The last session will be on a specific topic.

Module II: The first four sessions will follow a similar structure: each session will cover two topics of empirical financial accounting. For each topic, the professor will discuss both the general literature on the topic (theories and empirics) and the specific references suggested for the session (listed below). Special emphasis will be placed on the methodological issues that may be specific to each topic. The last session will cover only one topic, given that
the second half of the session will be devoted to an in-depth review of the paper which will be replicated for the problem set, which is one of the professor's contributions in the area.

Module III: In each session the professor will present a summary of the most relevant research in the corresponding topic according to the references provided in the Bibliography section. Teaching will emphasize state-of-the-art theories, unsolved empirical issues, and methodological challenges in empirical research. Students are expected to read papers marked with an asterisk before each session and participate actively.

Module IV: In each session the professor will present a summary of the most relevant research in the corresponding topic. Teaching will emphasize state-of-the-art theories, empirical issues, and methodological challenges in empirical research.

**Evaluation**

Evaluation will be based on a problem set for each module (25% of the grade of the course), which is based on the replication of one empirical paper in the reading list. This paper will be covered in special detail in the last session of the course.

**Course contents**

Module I:

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<td>Introduction. Sources of endogeneity in corporate finance</td>
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<td>2</td>
<td>Instrumental variables</td>
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<td>Differences in Differences</td>
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<td>Focus session: “Supply and demand of credit in the financial crisis”</td>
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Module II:
### Module I:

**Topics in Finance: Empirical Methods in Finance**

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<td>Stock prices, returns and earnings</td>
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<td>Accounting-based market anomalies:</td>
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<td>Earnings forecasts: Analysts and Managers’ Forecasts</td>
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<td>3</td>
<td>Accounting-Based valuation</td>
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### Module III:

**Portfolio Performance Evaluation: Performance Measures and Empirical Evidence**

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<td>The Flow-Performance Relationship and the Berk and Green (2004) Model</td>
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<td>Mutual Fund Fees and Mutual Fund Investor Behavior</td>
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<td>Mutual Fund Competition</td>
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<td>Conflicts of interest in Delegated Portfolio Management</td>
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### Module IV:

**Credit cycles: booms and crunches**

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<td>3</td>
<td>Asset price bubbles, fire sales, liquidity, contagion, Volcker rule</td>
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<td>4</td>
<td>Monetary policy, financial stability, globalization, capital controls</td>
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<td>5</td>
<td>Macropurudential policy, crises and excessive risk-taking</td>
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</table>

**Bibliography**

**Module I:**

Topics in Finance: Empirical Methods in Finance
Topics in Finance: Empirical Methods in Finance

Session 1:

Session 2:

Session 3:

Session 4:
Keys, B., T. Mukherjee, A. Seru and V. Vig, 2010, Did securitization lead to lax screening, Quarterly Journal of Economics, 125(1)

Session 5:

Module II: Empirical Financial Accounting

Session 1


**Session 2**


**Session 3**


**Session 4**


**Session 5**


**Module III: The Economics of Asset Management**

**Session 1**


15F022
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Session 2

Session 3

Session 4
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**Session 5**


**Module IV:**

Topics in Finance: Empirical Methods in Finance

• Rey, Hélène. 2013. Dilemma not trilemma: The global financial cycle and monetary policy independence. Presented at the Jackson Hole Symposium hosted by the Federal Reserve Bank of Kansas City, August.
• Laeven, Luc. 2013. Corporate governance: What's special about banks? Annual Review of
Financial Economics 5: 63–92

- Bordo, Michael D., and Joseph G. Haubrich. 2010. Credit crises, money and contractions: An

Professors Biography

Prof. Polo is an Assistant Professor of Finance at the Universitat Pompeu Fabra, an Affiliated Professor at the Barcelona Graduate School of Economics and a CEPR Network Fellow. He has been a Research Fellow of the Rock Center for Corporate Governance at Stanford University and a Research Fellow in the Finance Programme of the Oxford Institute for Global Economic Development (OxIGED). His research interests are in corporate finance, banking and corporate governance. Andrea holds an MPhil in Finance from the University of Cambridge and a DPhil in Financial Economics from the University of Oxford.

Prof. Gómez Biscarri holds an M.A. in Economics and a Ph.D. in Business Economics from UCLA. He is a professor of accounting, finance and econometrics at Universitat Pompeu Fabra, the Barcelona Graduate School of Economics and the Barcelona School of Management. He is also a part-time professor of IESE Business School.
and Deusto Business School. His current research focuses on time series econometrics, on the impact of accounting on the banking sector, specifically on earnings management behavior and on the effect of new accounting regulations on bank's strategies.

**Prof. Gil-Bazo** is Associate Professor of Finance at University Pompeu Fabra. Javier holds a doctorate in Economics from the University of the Basque Country and has also undertaken research at Tilburg University and the Wharton School of the University of Pennsylvania. His research has been published in academic journals such as Journal of Finance, Journal of Banking and Finance, Quantitative Finance, Journal of Business Finance and Accounting, Journal of Financial Econometrics, and Journal of Economic Behavior and Organization. His work has been awarded with the Best Paper Award at the European Conference of the Financial Management Association, the Honorable Mention of the Moskowitz Prize for outstanding research in socially responsible investing and the BME Best Derivatives Paper Award at the Annual Meeting of the Spanish Finance Association.

**José-Luis Peydró** is ICREA Professor of Economics at UPF, Barcelona GSE Research Professor and Research Associate of CREI. He is Research Fellow of CEPR and IESE Public-Private Sector Research Center. Professor Peydró is also Associate Editor of the Review of Finance (the journal of the European Finance Association). He is a member of the European Systemic Risk Board's Advisory Scientific Committee, has been an advisor to the Bank of Spain's Financial Stability Department since 2011, consulted other central banks and international organizations since 2011, and previously worked at the European Central Bank. José Luis has written a book with Xavier Freixas and Luc Laeven on Systemic Risk, Crises and Macroprudential Policy, MIT Press, June 2015. In 2015, he received a Consolidator Grant from the European Research Council (ERC).